

**Medway Council**  
**Meeting of Audit Committee**  
**Wednesday, 27 June 2018**  
**7.02pm to 8.22pm**

**Record of the meeting**

**Subject to approval as an accurate record at the next meeting of this committee**

**Present:** Councillors: Kemp (Chairman), Osborne and Tejan

**Substitutes:** Councillors:  
Turpin (Substitute for Gulvin)  
Griffiths (Substitute for Maple)

**In Attendance:** Katey Arrowsmith, Head of Finance Strategy  
Perry Holmes, Chief Legal Officer/Monitoring Officer  
James Larkin, Head of Audit and Counter Fraud  
Jonathan Lloyd, Principal Accountant  
Michael Turner, Democratic Services Officer

**105 Apologies for absence**

Apologies for absence were received from Councillors Gulvin and Maple.

**106 Record of meeting**

The records of the meeting of the Committee held on 20 March 2018 and the Joint Meeting of Committees held on 16 May 2018 were agreed and signed by the Chairman as correct.

**107 Urgent matters by reason of special circumstances**

There were none.

**108 Disclosable Pecuniary Interests and Other Significant Interests**

Disclosable pecuniary interests

There were none.

Other significant interests

There were none.

Other interests

## Audit Committee, 27 June 2018

In relation to agenda item 8 (External Quality Assessment), Councillor Griffiths disclosed that he was the Deputy Chair of Medway Community Healthcare which was the parent organisation of Gateway Assure who had carried out the Assessment.

### 109 External Audit Fee

#### Discussion:

Members considered a report regarding the proposed External Audit fees for 2018/19.

#### Decision:

The Committee agreed to note the fees for the core audit 2018/19.

### 110 Update to Contract Procedure Rules

#### Discussion:

Members considered a report which detailed proposed changes to the Contract Procedure Rules (CPRs) aimed at providing greater efficiencies on procurement activities within the authority by establishing a uniform means to award lower value (under £25,000) contracts.

Regarding the £100,000 threshold for Level 3 Procurement (Medium Risk), Members asked how this compared with other unitary councils and also Kent County Council. The Chief Legal Officer undertook to look at that, commenting he considered the figure to be at an appropriate level for Members to become involved in the procurement process. As the £100,000 figure had been agreed some years ago he would also look at what the rationale for agreeing that threshold had been.

In response to a question, the Chief Legal Officer considered that the proposed changes would not involve extra work for the category management team and would allow the team to focus on higher value contracts where there was more scope for achieving significant savings. The Chief Legal Officer also clarified that the Team worked closely with service managers and the proposed changes reflected those discussions

A Member welcomed the proposals, commenting that there was still a requirement to achieve value for money in respect of lower value contracts under £25,000 and that internal audit was a mechanism to ensure that happened. He queried the position where officers were entering into several contracts just under £25,000 (for example to purchase stationery), which aggregated together could amount to over £100,000. The Chief Legal Officer replied that advice on this issue was given to service managers that contracts must not be artificially disaggregated to avoid the application of the CPRs or EU procurement rules. In relation to the purchase of stationery, budgets for that

## Audit Committee, 27 June 2018

and similar spending had been centralised. The Council had a contract with a single stationery supplier which allowed expenditure to be controlled and this approach had resulted in significant savings.

In response to comments about transparency, officers advised that all expenditure over £250 was published on the Council's website and all contracts over £25,000 were listed on Contracts Finder, which was available online.

A Member queried how many exemptions and exceptions to CPRs had been made in the last year. The Chief Legal Officer explained this happened rarely, and would be in single figures. All requests needed to be signed off by the Chief Legal Officer who would always liaise with the Chief Finance Officer before making a decision.

### **Decision:**

The Committee agreed to recommend the proposed changes to the Contract Procedure rules to Council for approval.

## **111 Treasury Management Annual Outturn Report**

### **Discussion:**

Members considered a report which gave an overview of treasury management activity during 2017/18.

Members discussed property fund investment returns and the following issues were raised:

- whether, in the light of the poor performance of CCLA compared to the other funds, any rebalancing of investments was planned. Officers advised that there were no plans to re-balance funds
- whether the approach taken by the best performing fund, Rockspring, differed to the others. Officers commented that all the funds had invested in UK properties but there were variations as to which type of properties were invested in and in which geographical area. A strategy which had produced successful returns was no guarantee of future success.
- whether there were any plans for the Council to increase its appetite for risk regarding investment in property. Officers advised that there were no plans to further invest in property via the treasury management strategy but the Council had agreed to invest in property through its capital programme.
- given the overall return of £175,000 was fairly small and similar to what could be achieved through short term lending, which was less risky, whether the Council should take a more risk averse position and move out of investing in property. Officers advised that the approach had been agreed on the basis that investments in property would be in place for a 5-7 year period. An undertaking was given that this issue would be closely monitored and there would be an opportunity for the Committee

## **Audit Committee, 27 June 2018**

to scrutinise this issue in 12 months when considering the next Annual Outturn report.

A Member referred to several County Councils who were in serious financial difficulties, with some having adopted quite aggressive treasury management strategies and queried why the Council's Strategy did not refer to this issue. Officers advised that the Council's Treasury Strategy was based on a low risk approach and the wider context of local authorities facing financial pressures was a factor which would be referred to in budget reports.

In response to a query, officers confirmed there were no updates to report regarding the test case following LOBO objection to various councils' accounts.

Referring to Brexit in 2019 a Member asked if any scenario planning had taken place to look at the possible impacts on the Treasury Management Strategy. Officers advised that no specific scenario planning had taken place and whilst there was a great deal of uncertainty as to what would happen, the biggest potential impact on the Strategy could be changes to interest rates. The Council's treasury management risk appetite and its exposure to the property market were quite low though, an approach which had been endorsed by the Council's treasury management advisors. Work was underway on the Medium Term Financial Strategy which would involve modelling the impact of future interest rates on the medium term budget.

### **Decision:**

The Committee agreed to approve this treasury management outturn annual report and refer it to Cabinet.

## **112 External Quality Assessment**

### **Discussion:**

Members considered a report on the outcomes of the External Quality Assessment conducted by Gateway Assure in February 2018.

Members supported the proposal to move to a RAG rating system for audit opinions. This was a nationally recognised methodology which would allow for easier benchmarking; the colour coding would better highlight the review findings and a common methodology across both councils would have benefits for the team.

A Member commented that the recent informal meeting between the Audit Committees of Medway and Gravesham Councils had been helpful and Gravesham Members had been very positive about the shared audit service.

In response to a question about whether there was any external assessment of the fraud element of the shared service, the Head of Audit and Counter Fraud Shared Service advised that there were no national standards for counter fraud work. Reciprocal arrangements had been agreed with Kent County Council and

## Audit Committee, 27 June 2018

Tonbridge and Malling Council whereby each council would self assess against CIPFA guidance and then audit the counter fraud work of one of the other two councils. The summary of Medway's audit would be included in the regular update report to the Committee.

### Decision:

The Committee agreed to:

- a) endorse the work already undertaken in relation to recommendations R2, R5, R6, R7, R8, R9, R10, R12, R15 and R17, and the proposed actions to be taken by the audit & counter fraud team in relation to recommendations R1, R3, R4 and R11;
- b) approve the proposed changes to audit opinions and recommendation priorities as per recommendations R13 and R16, and;
- c) in relation to recommendation R14, approve the proposal to remove the need to include low priority recommendations in audit reports.

### 113 Audit and Counter Fraud Annual Report 2017/18

#### Discussion:

Members considered a report regarding Audit & Counter Fraud work completed during 2017-18 which also presented the opinion of the Head of Audit & Counter Fraud Shared Service, as Chief Audit Executive, on the Council's internal control environment.

91% of the agreed plan had been delivered compared to the target of 95%, which the Head of Audit & Counter Fraud Shared Service considered to be good in the light of staff turnover and sicknesses experienced during the year.

In response to a comment about whether greater use could be made of anti fraud declarations, the Head of Audit & Counter Fraud Shared Service advised that all council tax reduction and housing benefit application forms included a declaration about the need to report changes in circumstances and that a fraudulent claim could give rise to a criminal offence. This helped to deter fraud and make people aware of their obligations.

The following issues were discussed in relation to some of the audit reviews:

- **Risk Management Framework**

A Member asked which service had not produced evidence of a service plan. The Head of Audit & Counter Fraud Shared Service undertook to provide an answer outside the meeting.

## Audit Committee, 27 June 2018

- **Sundry debtors**

Some concern was expressed regarding the rejection of a high priority recommendation that a review of the authorised signatory list should take place and a Member queried the role of Internal Audit to intervene in such a situation. The Head of Audit & Counter Fraud Shared Service advised that the service had rejected the recommendation as a review had happened recently and they considered they had arrangements in place to manage the risk. This had been accepted by Internal Audit. The Head of Audit & Counter Fraud Shared Service agreed to provide a fuller explanation in future reports where a recommendation had been rejected.

Where the service objected to a recommendation the Chief Finance Officer would discuss this with the Director and if he considered there was a significant control risk this would be reported to the Committee. Such an eventuality was very rare though. It was also clarified that Internal Audit followed up on progress with implementing recommendations and would ask for evidence for this.

- **Special Educational Needs and Disabilities Transport**

A Member questioned whether, based on the results of the review and also his experience of helping constituents with home to school transport appeals, this service was working as it should. The Head of Financial Strategy responded that she was confident the service manager had robust plans in place to manage the service.

In response to a question about the use of digital information to prevent fraud, officers advised that a new post had been created to match data and identify fraud.

**Decision:**

The Committee agreed to:

- a) note the work undertaken by the Audit & Counter Fraud Shared Service for Medway during 2017-18 in providing an effective service to the Council, and;
- b) note the opinion on the Council's internal control environment provided by the Head of Audit & Counter Fraud Shared Service

### 114 Annual Governance Statement

**Discussion:**

Members considered a report which explained the requirements for reporting and approving an Annual Governance Statement covering the financial year 2017/18.

## **Audit Committee, 27 June 2018**

### **Decision:**

The Committee agreed to approve the Annual Governance Statement.

### **115 Review of Audit Committee Terms of Reference**

#### **Discussion:**

Members considered a report on a review of the Terms of Reference of the Audit Committee.

#### **Decision:**

The Committee agreed that, following a review of the Terms of Reference, no amendments were required as they remain relevant and reflect best practice and that the Audit Committee continue to operate under the existing Terms of Reference.

**Chairman**

**Date:**

**Michael Turner, Democratic Services Officer**

Telephone: 01634 332817

Email: [democratic.services@medway.gov.uk](mailto:democratic.services@medway.gov.uk)